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U.S. News: Economists Seek Breakup Of Big Banks
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WASHINGTON -- Instead of funneling taxpayer money into big financial firms, the government should take the radical step of breaking them up into smaller, more transparent companies, top economists told lawmakers Tuesday.

"We have little to lose, and much to gain, by breaking up these behemoths, which are not just too big to fail, but also too big to save and too big to manage," said 2001 Nobel Prize recipient and Columbia University Prof. Joseph Stiglitz, one of the witnesses testifying before the Joint Economic Committee of Congress Tuesday morning. He argued that big institutions are more likely to take excessive risks that backfire and distort markets.

Mr. Stiglitz also criticized the Treasury Department's $700 billion financial-rescue program for propping up large firms with subsidies, while allowing community-based banks to collapse. He voiced skepticism that the Troubled Asset Relief Program would be successful, because it paves the way for big banks to continue dominating the U.S. financial system.

Massachusetts Institute of Technology Prof. Simon Johnson argued that policy makers need to overhaul antitrust laws to prevent the development of financial firms that are too large. Banks should be sold to new private-equity owners and broken up, Mr. Johnson said, adding that banks could be divided regionally or by type of business to avoid a concentration of power.

"This may seem like a crude and arbitrary step, but it is the most direct way to limit the power of individual institutions, especially in a sector that, the last year has taught us, is even more critical to the economy as a whole than anyone had imagined," Mr. Johnson said.

Also on the panel was Federal Reserve Bank of Kansas City President Thomas Hoenig, who criticized the government's response to the financial crisis, saying the measures have focused too heavily on propping up big companies such as American International Group Inc.

"Our actions so far risk prolonging the crisis, while increasing the cost and raising serious questions about how we eventually unwind these programs without creating another financial crisis as bad or worse than the one we currently face," Mr. Hoenig said.